

July 9, 2003

Mr. Dennis Keschl, Administrative Director
State of Maine, Public Utilities Commission
242 State House Station
Augusta, Maine 04333-0018

Re: Verizon Maine Proposal to Eliminate Multiple Rate Groups through
Consolidation into a Single Statewide Rate Group, Docket No. 2003-_____

Dear Mr. Keschl:

In conjunction with the Commission's rulemaking to enlarge and standardize Basic Service Calling Areas (BSCA) across the state, Verizon Maine proposed to eliminate its multiple rate group pricing structure for basic exchange service and collapse the present six rate groups into a single statewide rate. The Commission noted that rate group consolidation went beyond the announced scope of issues in the rulemaking, but agreed that such a change should logically be evaluated at the same time all other BSCA revisions are implemented. (See Order Adopting Amended Rule; Statement of Factual and Policy Basis, Docket No. 2001-865, Dec. 10, 2002 at 6). The Order directed Verizon to resubmit its proposal for separate consideration. (*Id.*).

Introduction

With broader, more uniform local calling areas, the archaic "value of service" pricing rationale that prompted multi-tiered rate groups in the past no longer applies. Eliminating the multiple rate groups improves the cost-price relationship of local service statewide, and offers a more logical and understandable pricing format to consumers. Introducing this change at the same time Verizon's basic exchange service is re-priced for the BSCA expansion would make the rate changes easier for customers to understand and appreciate.

A number of states have similarly restructured basic exchange service through discontinuation of a multiple rate classification structure and directing statewide uniform rates for business and residence basic exchange line service. For example, in 1990 Massachusetts implemented a uniform local calling area for all exchanges consisting of the "home" exchange and all contiguous exchanges (and also retained any noncontiguous exchanges that were already included in existing local calling areas).

This rate restructuring also included the elimination of rate group classifications and the introduction of LATA-wide, uniform rates for each residence and business basic exchange class of service. This decision was part of an overall rate reform effort to move prices for basic local exchange service more in line with costs identified in Docket 89-300. Vermont phased in a similar plan during 1996-2000 that transitioned to statewide uniform rates for business and residence exchange services which had the same effect as eliminating rate group classifications.

Description of Consolidation Proposal

To develop its proposal, Verizon has calculated a revenue-neutral, weighted average statewide rate for each basic exchange class of service. This analysis is shown in the attached documentation. A weighted average rate is developed by multiplying the rate charged for each rate group by the number of access lines in each rate group, adding the result, and then dividing the product by the number of total lines. Based on discussions with Staff, several alternative scenarios for developing the weighted average rate for each class of service (i.e., Premium, Economy, Lifeline, etc.) were considered and are illustrated to provide for a comparison. For example, the first consumer scenario studied employed current Economy rates with the present number of Economy access lines, per rate group. This analysis yields a gives a slightly different weighted average rate than scenario 2 (Weighted Rate w/ Economy included in Premium). Scenario 2 includes the number of Economy lines for each rate group into the number of lines for Premium service to calculate an overall weighted average Premium rate. The resulting weighted average Premium rate is then reduced in scenario 2 by a \$1.50 Premium/Economy differential, to derive an effective Economy "weighted average" rate.

The outcome on the Economy rate from these two scenarios are not materially different. (Compare \$16.64 in column 2 of the table below with \$16.48 in column 3). Verizon supports the weighted average rate calculated in the first scenario using current Economy volumes with current Economy rates as a better option than simply maintaining the \$1.50 differential as proposed in scenario 2. With BSCA expansion, the difference between Premium and Economy calling areas will not be as significant as it was when BSCAs were first established, and with the expansion the difference will usually be quite small.

The final two columns of the consumer chart below follow the same methodology as employed in columns 2 and 3, except these results include the revenue impact of reclassifying customers within higher rate groups affected by the increased number of lines associated with the new BSCA Rule to be implemented in December *before* undertaking to develop the weighted average rate associated with the proposed rate group consolidation. Verizon believes that proper rate development proceeds by performing the exchange reclassification attributable to the December BSCA expansion first, then the development of a single rate to achieve rate group consolidation. Finally, the offset necessary to recover both the costs and revenue loss of the expanded BSCAs can be added. Regardless of the order these steps are applied, however, the resulting single statewide rate group for customers, post-expansion, does not differ.

The following chart summarizes the results of the attached proprietary backup documentation for residential (or consumer) basic exchange service.

Line	Basic Exchange Class of Service	Weighted Rates	Weighted Rate w/ Economy Included in Premium	Weighted Rate w/ BSCA Reclass	Weighted Rate w/ Economy in Premium and BSCA Reclass
Consumer					
1	Premium	\$ 17.96	\$17.98	\$18.14	\$18.17
2	Life Line Premium	\$ 9.18	\$ 9.20	\$ 9.36	\$ 9.39
3	Economy	\$16.64	\$16.48	\$16.82	\$16.67
4	LifeLine Economy	\$ 7.86	\$ 7.70	\$ 8.04	\$ 7.89
5	2 Party (2FR)	\$16.19	\$16.19	\$16.47	\$16.47
6	LifeLine 2FR	\$ 7.41	\$ 7.41	\$ 7.69	\$ 7.69
Resale					
7	Premium	\$14.40	\$14.42	\$14.55	\$14.57
8	Lifeline Premium	\$ 7.36	\$ 7.38	\$ 7.51	\$ 7.53
9	Economy	\$13.35	\$13.22	\$13.49	\$13.37
10	Lifeline Economy	\$ 6.30	\$ 6.18	\$ 6.45	\$ 6.33

The column titled "Weighted Rates" describes today's rates as follows:

- Line 1: Reflects the weighted average rate for Premium residential class of service (including volumes for Premium Lifeline and Premium Resale customers).
- Line 2: Reflects the Premium weighted average rate minus the \$8.78 Lifeline credit.
- Line 3: Reflects the weighted average rate for Economy residential class of service (including volumes for Economy Lifeline and Economy Resale customers).
- Line 4: Reflects the Economy weighted average rate minus the \$8.78 Lifeline credit
- Line 5: Reflects the weighted average rate for 2 Party service.
- Line 6: Reflects the 2 Party weighted average minus the \$8.78 Lifeline credit.
- Line 7: Reflects the Premium weighted average rate minus the 19.8% resale discount.
- Line 8: Reflects the Lifeline Premium weighted average rate minus the 19.8% resale discount.
- Line 9: Reflects the Economy weighted average rate minus the 19.8% resale discount.
- Line 10: Reflects the Lifeline Economy weighted average rate minus the 19.8% resale discount.

The column titled "Weighted Rate w/ Economy Included in Premium" is a depiction of the weighted average rate by including the volumes for current Economy customers in the volumes for current Premium customers and calculating the average weighted for Premium. Then, similar to the differential held for lifeline and resale in the previous column, the Economy differential of \$1.50 is subtracted from Premium weighted average rate to calculate the new Economy rate. The rest of the lines are calculated in the same fashion as the "Weighted Rate" column. This method is not being proposed by Verizon but is offered for illustrative purposes at Staff's request.

The next column, titled "Weighted Rate with BSCA Reclass", reflects an integrated BSCA and Rate Group Consolidation approach which is the approach advocated by Verizon. Once local calling areas are expanded under the new BSCA rule, local exchanges will be reclassified based on the number of access lines they are able to

reach on a local basis. In many cases, the number of access lines reachable on a local basis will increase beyond the parameters of the rate group they are currently in and "bump" that exchange into the next highest rate group. This would be the first logical step for Verizon to recover toll revenue lost to new local BSCA routes. This column first calculates the reclassification, then goes through the same exercise as the first column, "Weighted Rates", to calculate new statewide weighted average rates for each class of service.

The final column, titled "Weighted Rate w/ Economy in Premium and BSCA Reclass", uses the same methodology from the second column, "Weighted Rate w/ Economy Included in Premium" (incorporating the \$1.50 differential between Premium and Economy), but calculates the BSCA exchange reclassification before calculating the new statewide weighted average rates.

The next chart below summarizes the weighted average rates calculated for the business customers that are contained in the attached proprietary documentation.

Line	Exchange Class of Service	Weighted Rates	Weighted Rate w/ BSCA Reclass
Business			
1	FB2 (2 party business)	\$ 32.87	\$ 32.87
2	MBFX (measured bus foreign exch)	\$ 25.90	\$ 25.90
3	PBM (PBX measured service)	\$ 25.90	\$ 25.90
4	PREMPBX (PBX premium unlimited)	\$ 56.15	\$ 56.23
5	PUBEM (Public Call Emergency Svc)	\$ 15.78	\$ 16.01
6	PREMBUS (Premium Business)	\$ 37.28	\$ 37.37
7	ECONBUS (Economy Business)	\$ 34.17	\$ 34.26
CTX NON FPO RETAIL - PREMIUM			
8	NOVA	\$ 14.12	\$ 14.12
9	CUSTOM	\$ 16.03	\$ 16.03
10	INTELLIPATH	\$ 14.04	\$ 14.07
RESALE CIsSvc Premium			
11	PREMPBX	\$ 42.81	\$ 42.87
12	PREMBUS	\$ 28.42	\$ 28.49
13	MBFX	\$ 19.75	\$ 20.00
14	PBM	\$ 19.75	\$ 20.00
Centrex Non FPO Resale			
15	CUSTOM	\$ 12.22	\$ 12.22
16	INTELLIPATH	\$ 10.70	\$ 10.73
17	ECONBUS	\$ 26.05	\$ 26.12

The column titled "Weighted Rates" reflects the weighted average rate for each class of service based on today's rates. The column titled "Weighted Rate w/ BSCA Exchange Reclass" first takes into account the reclassification of lines between rate groups based on the number of access lines within their local calling area as a result of

implementing the new BSCA, then calculates the weighted average rate for each class of service.

There are many steps involved in the calculations and Verizon would welcome the opportunity to further describe its proposal to Staff and Commissioners and to answer any questions that arise.

Sincerely,

CC: William Black, Esq.
Benjamin Sanborn, Esq.

Guide to Backup Documentation

1. Present Consumer Units and Revenues calculating today's revenue. This spreadsheet provides the foundation to ensure revenue neutral rate group consolidation.
2. Consumer Retail Weighted Average Rates (2 pages). This page shows the calculations for column 1 in the summary chart. It also shows the revenue impact is neutral.
3. Consumer Retail Weighted Average Rates with Lifeline Economy and Resale included in Premium (2 pages). This calculates the rates reflected in column 2 of the summary chart. It also shows the revenue differential amounts to \$288/month.
4. Consumer Weighted Rates with BSCA Reclassification (2 pages). This shows the calculations for column 3 on the summary chart. This shows an increase in revenue of \$83,400 per month, which reflects the exchange reclassification portion of BSCA recovery of lost toll.
5. Consumer Weighted Rates w/ Economy in Premium and BSCA Reclass (2 pages). This shows the calculations for column 4 of the summary chart. This shows additional revenue of \$83,700 per month which reflects the exchange reclassification portion of BSCA recovery of lost toll.
6. Present Business Units and Revenues calculating today's revenue (2 pages). This spreadsheet provides the foundation to ensure revenue neutral rate group consolidation.
7. Business Retail Weighted Rates (2 pages). These pages include the related resale calculations as well. These pages show the calculations for the first column on the summary chart. It also shows the revenue impact is virtually neutral (off by \$3.00/month).
8. Business Weighted Rates w/ BSCA Reclass (2 pages). This shows the calculations for second column on the business summary chart which incorporates exchange reclassification from the new BSCA routes before calculating a statewide weighted average rate. The revenue impact is an additional \$10,200 per month which reflects the exchange reclassification portion of BSCA recovery of lost toll.